

JUN 04 2013

**INDIANA SECRETARY OF STATE
SECURITIES DIVISION**

INDIANA
SECRETARY OF STATE

**STATEMENT OF POLICY REGARDING INVESTMENT ADVISERS
WITH CUSTODY OF CLIENT FUNDS**

The Indiana Secretary of State and the Securities Commissioner ("Commissioner") have determined that it is appropriate and in the public interest to issue a Statement of Policy describing the requirements of investment advisers which have custody of client funds.

Background

Investment advisers with custody of client funds take on an added responsibility and thus added safeguards are necessary. Section 23-19-4-11(f) of the Indiana Uniform Securities Act ("Act") provides the Commissioner with the authority to prohibit, limit or impose conditions on an investment adviser regarding custody of securities or funds of a client. The Indiana Administrative Code, 710 Ind. Admin. Code § 4-9-12(a) and (c), provides that an investment adviser required to be registered in Indiana under Ind. Code 23-19 and which has custody of client funds, must file with the Commissioner an audited balance sheet as of the end of the investment adviser's fiscal year. The financial statements must be submitted to the Commissioner no more than one hundred twenty (120) days after the end of the investment adviser's fiscal year.

In addition to the year-end requirement outlined in 710 Ind. Admin. Code § 4-9-12(a) and (c), investment advisers are also subject to an annual unannounced audit as outlined in 710 Ind. Admin. Code § 4-9-13(a)(6). The unannounced audit requirement states generally that at least once every calendar year an independent certified public accountant or an independent public accountant must verify all client funds and securities of clients by actual examination at a time chosen by the accountant without prior notice.

The Commissioner recognizes that requiring both an annual audited balance sheet and an annual surprise audit could cause an undue hardship on the investment adviser.

Policy

Starting with the date of this Statement of Policy, and at the discretion of the Commissioner, an investment adviser may choose one of the following options to satisfy its annual audit requirements:

- Provide an audited balance sheet to the commissioner annually, as outlined in 710 Ind. Admin Code § 4-9-12(a) and (c); or
- Submit the reports of an annual surprise audit of client funds, as outlined in 710 Ind. Admin Code § 4-9-13(a)(6).

If an investment adviser has custody of a pooled investment vehicle and/or private investment fund, the audited balance sheet or the surprise audit must include an audit of the pooled investment vehicle and/or private investment fund.

This Statement of Policy does not waive the requirements of 710 Ind. Admin. Code § 4-9-12(b) which states that every investment adviser required to be registered under IC 23-19 must file upon request a financial statement with the commissioner showing the financial condition of the investment adviser as of the most recent financial year.

DATED at Indianapolis, Indiana, this 4TH day of JUNE, 2013.



CONNIE LAWSON
SECRETARY OF STATE

CHRIS NAYLOR
SECURITIES COMMISSIONER